

Message Text

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FM SECSTATE WASHDC
TO AMEMBASSY TEHRAN PRIORITY

C O N F I D E N T I A L STATE 303406

EXDIS, FOR THE AMBASSADOR FROM ROBINSON

E.O. 11652: GDS

TAGS: ENRG, IR

SUBJECT: STRATEGIC PETROLEUM RESERVE PROCUREMENT OF
OIL FROM IRAN

REF: STATE 289631

1. DISCUSSIONS WITH FEA ON PROCUREMENT PLAN FOR FIRST
STAGE OF STRATEGIC RESERVE HAVE RESULTED IN INCORPORATION
OF PROCUREMENT CRITERIA WHICH MAY GIVE IRAN SOME
ADVANTAGE OVER LESS RELIABLE (I.E. EMBARGO-THREATENING)
SOURCES. HOWEVER, VAGARIES OF U.S. OIL PRICE CONTROL-
ENTITLEMENTS SYSTEM AND LEGAL OPINIONS REGARDING U.S.-
FLAG SHIPPING REQUIREMENTS (APPLICABLE TO PRIVATE U.S.
OIL COMPANY CONTRACTS AS WELL AS DIRECT USG PURCHASE
CONTRACTS WITH FOREIGN GOVERNMENTS) WILL GIVE U.S. OIL
COMPANIES SUBSTANTIAL PRICE ADVANTAGE OVER FOREIGN
GOVERNMENTS AS BIDDERS FOR RESERVE SUPPLY CONTRACTS, EVEN
THOUGH BOTH ENTAIL IMPORTS OF CRUDE. IN ADDITION, RECENT
DECISIONS TO TAKE ALL ALASKAN CRUDE INTO CONTINENTAL U.S.
MARKET AND THE RISING PROPORTION OF HEAVY CRUDE IN
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CANADIAN SUPPLY TO U.S. MARKET OBVIATE THE NEED TO HOLD

HEAVY CRUDE IN RESERVE. THEREFORE FEA HAS CONCLUDED THAT RESERVE SHOULD CONSIST ONLY OF CRUDE LIGHTER THAN 31 DEGREES API. THESE FACTORS ADD UP TO AN OPPORTUNITY FOR IRAN TO COMPETE SUCCESSFULLY THROUGH U.S. OIL COMPANIES

FOR CONTRACTS TO SUPPLY LIGHT CRUDE TO RESERVE AT PREVAILING PRICES IF IRAN FORESEES SURPLUS CAPACITY IN LIGHT CRUDE.

2. FEA'S PROPOSED PROCUREMENT PLAN WILL BE ANNOUNCED DECEMBER 16. IT WILL LIE BEFORE CONGRESS FIRST 45 DAYS OF NEW SESSION DURING WHICH CONGRESS CAN REVISE IT. THEREAFTER FEA WILL INVITE OFFERS FOR SUPPLY OF 150 MILLION BARRELS (290,000 B/D) DURING THE FIRST STAGE, I.E., JULY 1977 THROUGH DECEMBER 1978. LATER PROCUREMENT PLANS FOR SECOND STAGE OF RESERVE BUILD-UP, JANUARY 1979 THROUGH DECEMBER 1981, ARE MORE LIKELY TO BE ON TERMS FAVORING GOVERNMENT-TO-GOVERNMENT DEALS AND POSSIBLY INCLUDING HEAVY CRUDE.

3. ZAHEDI HAS BEEN PRESSING FOR FURTHER DISCUSSION OF POSSIBLE BILATERAL AGREEMENT TO SUPPLY RESERVE AS SUGGESTED BY OUR EXPLORATORY TALK ON NOVEMBER 24. NOT WISHING TO RISK A SHARPLY NEGATIVE REACTION IN TEHRAN BEFORE DECEMBER 15 OPEC MEETING, I CALLED ZAHEDI TODAY AND GAVE HIM A RATHER VAGUE STATUS REPORT OF THE EVOLUTION OF FEA PLANNING FOR RESERVE PROCUREMENT. I MENTIONED ACHIEVEMENT OF BIAS TOWARD IRAN AS A SOURCE, CERTAIN UNSTATED FACTORS THAT LEAD TO A PREFERENCE FOR CONTRACTS WITH U.S. OIL COMPANIES, AND RECENT DEVELOPMENTS CAUSING FEA TO PLAN TO CONCENTRATE RESERVE FILL IN LIGHT GRADES OF CRUDE. HE SEEMED TO HEAR MOSTLY GOOD NEWS IN MY REMARKS, AND I EXPECT THAT HIS REPORT TO HIM WILL BE MORE POSITIVE THAN FACTS WARRANT.

4. IMMEDIATELY AFTER ZARB ANNOUNCES AND EXPLAINS THE PROCUREMENT PLAN ON THURSDAY, DEPARTMENT OFFICER WILL EXPLAIN IT MORE FULLY TO IRANIAN EMBASSY OFFICER. AT THAT POINT, THE LIMITATIONS ON IRAN'S OPPORTUNITY TO OBTAIN INCREMENTAL SALES TO U.S. IN FIRST STAGE OF

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RESERVE PROGRAM WILL BECOME EVIDENT TO GOI.

5. IF YOU RECEIVE INQUIRIES FROM GOI PRIOR TO DECEMBER 17, I SUGGEST THAT YOU STATE THAT YOU EXPECT TO RECEIVE SHORTLY AN INTERPRETATION OF THE FEA ANNOUNCEMENT AND WILL BE IN A POSITION THEN TO DISCUSS WHAT IT MAY MEAN FOR IRAN. KISSINGER

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